

Remarks by Governor Ruth Ann Minner
HOUSE BUDGET COMMITTEE DEMOCRATS
Friday, October 17, 2003

Thank you, Congressman Spratt and Senator Carper.

My colleagues and I appreciate the focus you bring to the fiscal challenges faced by governors across the nation. It is a testament to your commitment to the states that you asked us here to speak about the struggle to continue delivering quality services in the face of declining state revenues and federal funding.

In spite of budgets that keep getting smaller, teachers are still needed in classrooms, buses are needed to take people to work, the poor, elderly and disabled must be cared for, children require foster care, stoplights need to work, police officers are still needed to keep our communities safe.....and I could go on.

It is these essential services that people rely on state government in Delaware to deliver every day.

If there were one thing I hope you will take away from our remarks today, it is that states have been doing their part to manage with less. What we need from Congress is the kind of support you gave us with the fiscal relief package, as well as firm opposition to proposals to restructure funding for critical social service entitlement programs that shift the burden from the federal government to state government.

We also appreciate your opposition to further tax cuts that impact state revenues and more unfunded mandates.

Working with our state legislature, in Delaware we have continued to work against making budget cuts that reduce services and we are doing fairly well. We have maintained the Triple-A bond rating that is imperative to making continued improvements in our schools, on our highways and to meet other infrastructure needs.

Delaware continues to contribute to a rainy day fund and has resisted the temptation to tap that fund – which was designed for emergencies – in order to finance base budget needs.

Sadly, my state is not representative of what has happened in many states. Other governors have had to cut services to meet balanced budget requirements and still have watched their reserve funds dwindle and bond ratings drop.

For nearly three years, governors have been managing through a soft economy, dealing with the negative effects of federal tax cuts on state revenues, working with flat or reduced federal budgets and coping with the escalating costs of things like health care faced by businesses and families as well.

Governors have implemented cost controls and used many private sector management tools to realize savings associated with continuous improvement in delivering services more efficiently -- through multiple down revenue cycles.

I have been asked to share with you the approach we took to manage Delaware's structural budget problem.

I can summarize our balanced solution easily: we cut discretionary funding, worked to contain the growth of mandated costs, reengineered existing programs and, in the end, imposed modest increases to add revenue.

Overview

Let me start by offering a very brief overview of the financial situation in Delaware.

Delaware's total operating budget for FY 04 is about \$2.4 billion, representing real operating growth of 2.2 percent. This represents the lowest budget growth in our state in 12 years.

I realize that \$2.4 billion is smaller than the budgets of some small divisions in one of the smaller federal agencies. What is useful though is to look at the underlying approach we used to attack what is a significant budget deficit for a \$2.4 billion budget.

We started the FY 2004 budget process in the fall of calendar year 2002. At that time, we forecasted a \$300 million gap between projected revenues and projected baseline expenditures for the Fiscal Year 2004 budget. That projected gap existed due largely to mandated costs such as Medicaid, health insurance, pensions, school and debt service. In essence, the ongoing revenue for FY 2004 was projected to be \$300 million less than the ongoing expenditures and this gap -- what we termed the structural problem -- was forecasted to continue into future years.

This represented a structural problem -- meaning expenditures were outpacing revenue as a result of mandated cost increases.

It was my belief that we had to solve the structural problem that existed because, without significant changes, the state would face repeated and growing budget gaps for years to come. The key was to align ongoing expenditures including escalating mandated costs with ongoing -- and in some cases, declining revenue.

There were the opportunities to use one-time sources of revenue to balance the budget, such as tapping the rainy day fund. But this would not have been a responsible solution.

Other states found it necessary to employ some one-time revenue infusions -- and this might have worked had the economy recovered. But it has not recovered in any significant way and the lack of any sustainable growth in the economy has caused our revenue projections in categories tied to the economy, to remain flat.

Some states have resorted to the early release of prison inmates, closing schools one day a week, closing state parks and Motor Vehicle inspection lanes, even unscrewing lightbulbs to save on energy. Many have laid off active state employees including police and provisions are being sacrificed in preparation for emergencies in order to meet today's increased security needs.

In Delaware, the General Assembly and I were determined to cut costs and make government more efficient, because otherwise it would not be possible to solve a \$300 million problem without affecting children, the elderly, the poor, public safety or jobs. And even as we cut, it became clear that adding revenue had to be on the table.

And so our solution to the structural budget problem emerged as a package of budget cuts and cost containment as well as increased revenues.

Working with the Delaware General Assembly, the final solution largely mirrored our original proposal -- eliminating a little more than half of the deficit through cuts and savings and a little less than half by increasing revenue.

It was a difficult budget because it proposed eliminating some programs and positions. And still, some modest revenue increases were required close the gap.

Base Budget Cuts

The package I proposed carried forward many cuts I made midway through FY03, when it became clear to us that our projected revenue was dropping due to the economy and we would end the fiscal year in a deficit. We began cuts immediately that year, affecting all state agencies, and saving the state general fund \$15 million.

The FY04 package did not lay off any state employees, but it did permanently eliminate 431 general fund positions from state government, saving \$6 million.

And finally, a bitter pill was reducing school funds 1 percent, targeting discretionary costs, not classrooms, for \$7 million in savings.

Reengineering

The base budget cuts were the foundation and we built on that solid base with some changes to existing programs.

One example of a successful reengineering proposal took aim at the extended mission of public safety to include homeland security and the existing motor vehicle driver safety programs. The objective was to provide a clear focus on goals, improve efficiency and save money in the areas of public safety, homeland security and transportation.

We created a new Department of Safety and Homeland Security to consolidate like functions with improved opportunity to prevent and prepare for emergencies.

As a part of this effort, the Delaware Division of Motor Vehicle department was transferred from the old Department of Public Safety to our Delaware Department of Transportation to better align vehicle safety programs and clean air programs, and save \$9.7 million from the General Fund.

This allows the new Safety and Homeland Security Department to concentrate on safety, while DelDOT and DMV can work on safe driving practices and strategies for clean air.

Mandated Cost Containment

In Delaware, we also looked for creative and progressive ways to control mandated costs, such as Medicaid and health care insurance coverage. It was targeting ways to use management techniques to achieve cost savings without cutting benefits or restricting access.

Medicaid remains a major, major cost driver for state budgets and here again I want to thank you for your support for including coverage for dual eligibles as part of a Medicare prescription drug program.

At a time when overall state budgets remain flat, the forecast is for Medicaid to grow at levels approaching double-digit percentages.

In Delaware we have successfully implemented several initiatives aimed at reducing costs while maintaining eligibility and coverage. These include:

- Switching from two managed care organizations to one managed care organization, in combination with a state-operated Primary Care Case management program.
- Contracting with a broker to administer non-emergency transportation services and implementing a \$1 co-pay per trip.
- Revising prescription reimbursement rates based on an audit of actual acquisition costs in Delaware.
- Maximizing Medicaid cost sharing by seeking Medicaid reimbursement for Medicaid-eligible students utilizing school based wellness centers – a lower-cost form of treatment.
- And implementing a prior authorization for expensive brand drugs, such as Oxycontin, that are susceptible to misuse and abuse.

In combination, these steps significantly reduced the growth in mandated costs associated with Medicaid.

An equally important and successful health care strategy was bidding a consolidated RFP for all the state's health care expenditures – that would be for state employees, retirees and prison inmate health care.

Pharmaceuticals are a very large part of health care costs across the board and by joining the multi-state coalition for these drug products we expected to save nearly \$1.4 million in FY 2003.

As you can see from this extensive list of measures we implemented, every aspect of our health care picture has been under scrutiny for ways to save money.

Revenue

Now turning to the revenue side of the ledger, In Delaware we concluded that the responsible response to the remainder of the budget shortfall was a modest increase in the state's revenue base. The legislature agreed.

This was the only way to cope with our budget problem avoid cutting public safety programs that save lives, maintaining our commitment to children by improving education, and continuing to provide health and welfare services that people depend on.

We did this with an additional \$99 million a year raised by increasing the fees charged to companies for the privilege of incorporating in Delaware. Typically, these fees have been raised about once a decade. In consultation with the corporate community in developing this approach, we were comfortable that our actions would not deter firms from continuing to make Delaware their corporate home.

Other new revenue came from an increase in the cigarette tax from 24 cents per pack to 55 cents per pack, to bring in an additional \$28.5 million a year. Delaware's neighboring states are all \$1 or more, so here too we felt we took a reasonable approach.

And finally, a series of changes to the state's gaming rules were enacted. Video lottery casinos at our three racetracks were permitted to extend by two hours a night and one hour Sunday afternoon. Additional machines were authorized for each racetrack and new marketing tools were permitted. In combination, these changes are projected to add an additional \$16 million a year to the state general fund, as well as increasing revenues to the racetracks.

Conclusion

These are the ways we solved the \$300 million structural budget problem with a balanced approach. The solution involved a little more than half achieved with budget cuts and savings and a little less than half with new revenue.

At the same time, I believe we properly emphasized the need to find those ways to make government more efficient and effective in order to preserve essential services.

And equally important, in the revenue package, no one group of taxpayers shouldered a disproportionate burden from the increases.

The solution was responsible. It did not use one-time quick fixes to balance the budget today in a way that could cause a serious, serious crisis for future generations to confront.

In effect, our state approached our budget problem the way any responsible Delaware or American family would approach it: cutting costs while finding a way to make more money, without depriving itself of needed services and without emptying its emergency savings account to pay this month's bills.

Again, on behalf of all Delawareans, I thank you for your attention to the fiscal condition of our states and for the invitation to bring the Delaware approach to managing our way through this economic downturn.

I look forward to our continued conversation this morning and again, appreciate your concern and attention to the states role in managing through the current economic situation.

Thank you.